

Message Text

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ORIGIN INR-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 SSM-03 /033 R

DRAFTED BY INR/RNA/NE:AAVACCARO:CA
APPROVED BY INR/RNA/NE:DGNEWTON
SSM-CWKONTOS
DESIRED DISTRIBUTION
SSM

-----012549 211315Z /43

R 202101Z JUL 77
FM SECSTATE WASHDC
TO USMISSION SINAI
INFO AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY SANA

S E C R E T STATE 169501

E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 362 - JULY 20, 1977

MOSCOW, KUWAIT, SANA FOR AMBASSADORS

LONDON FOR KINSOLVING

1. ISRAEL. LIKUD'S ANNOUNCEMENT OF ECONOMIC AUSTERITY MEASURES HAS LEFT THE HISTADRUT AND THE LABOR PARTY DIVIDED AND UNDECIDED ON HOW TO PROCEED. ACCORDING TO EMBASSY TEL AVIV, LABOR AND MAPAM'S MORE MILITANT ELEMENTS ARE DISPLEASED WITH WHAT THEY FEEL IS THEIR LEADERS INACTION. FOLLOWING ALL-DAY DISCUSSIONS YES-TERDAY HISTADRUT AND LABOR REPRESENTATIVES REPORTEDLY

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DECIDED TO TRY FOR A VOTE OF NO-CONFIDENCE IN THE KNESSET AND TO DEMAND FULL LINKAGE OF WAGES TO THE COST OF LIVING.

2. ON A RELATED, BUT SEPARATE, ISSUE, ISRAELI BUSINESS AND GOVERNMENT LEADERS HAVE INCREASED THEIR CALLS FOR DIRECT US ACTION AGAINST THE ARAB BOYCOTT OF FIRMS

DOING BUSINESS WITH ISRAEL. THE BOYCOTT HAS NOT AFFECTED ISRAELI TRADE, BUT IT HAS DISCOURAGED FOREIGN INVESTMENT IN ISRAEL.

3. THE GOVERNMENT HAS BEEN UNDER HEAVY PRESSURE FROM THE ISRAELI PRESS AND PUBLIC TO DO SOMETHING ABOUT THE BOYCOTT, AND HAS LOBBIED FOR US ANTI-BOYCOTT LEGISLATION. ISRAELI OFFICIALS, HOWEVER, HAVE VARIED THEIR ASSESSMENT OF THE ACTUAL OR POTENTIAL DAMAGE OF THE BOYCOTT--STRESSING IT WHEN SPEAKING WITH US OFFICIALS, PLAYING IT DOWN WITH POTENTIAL INVESTORS.

4. THE ISRAELIS ASSERT THAT ARAB THREATS TO BLACKLIST FOREIGN FIRMS ARE RETARDING NEW FOREIGN INVESTMENT, LICENSING ARRANGEMENTS, PATENTS EXCHANGES, AND JOINT VENTURES AND ARE DISCOURAGING FOREIGN PARTICIPATION IN TRADE FAIRS, TRADE MISSIONS, AND JOINT CHAMBERS OF COMMERCE. THEY ALSO CONTEND THAT THE BOYCOTT IS UPROOTING LONG-ESTABLISHED COMMERCIAL TIES WITH KEY FOREIGN FIRMS.

5. ALTHOUGH THE BOYCOTT HAS NOT AFFECTED TRADE--COMMODITY EXPORTS HAVE DOUBLED SINCE 1972 AND IMPORTS HAVE NEARLY TRIPLED--IT HAS BEEN A MAJOR FACTOR IN THE DROP IN FOREIGN INVESTMENT FROM A RECORD \$250 MILLION IN 1973 TO \$75 MILLION LAST YEAR. ACCORDING TO
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THE US EMBASSY, US INVESTMENT HAS ALL BUT DRIED UP AND THE NUMBER OF US BUSINESS VISITS SINCE THE 1973 WAR HAS FALLEN DRASTICALLY.

6. OTHER FACTORS, INCLUDING THE DEPRESSED STATE OF THE ECONOMY, HOWEVER, ALSO HAVE BEEN IMPORTANT IN THE DECLINE IN FOREIGN INVESTMENT. THE SECURITY SITUATION AND A RECENT SPATE OF BUSINESS FAILURES, STRIKES, AND EMBEZZLEMENTS HAVE TARNISHED ISRAEL'S REPUTATION WITH PROSPECTIVE INVESTORS. FREQUENT DEVALUATIONS, MOREOVER, HAVE ERODED THE YIELD FROM PORTFOLIO INVESTMENT. (CONFIDENTIAL)

7. LEBANON. THE INTERIOR MINISTER HAS INDICATED THAT THE ENTRY OF FOREIGNERS IN LEBANON WOULD BE MORE STRICTLY CONTROLLED. IN THE FUTURE, THEY WILL BE ALLOWED ONLY A WEEK'S STAY INSTEAD OF THE 3 MONTHS PREVIOUSLY PERMITTED. THE PURPOSE IS LARGELY TO HELP FOIL AIRLINE HIJACKINGS. (LIMITED OFFICIAL USE)

8. SYRIA. ON JULY 16 TWO SYRIAN GUIDED-MISSILE PATROL BOATS WERE REPORTEDLY MET AND ESCORTED INTO ALEXANDRIA

HARBOR BY AN EGYPTIAN OSA-CLASS BOAT. WHILE THE PURPOSE AND DURATION OF THE SYRIAN VISIT ARE UNCERTAIN, IT IS SIGNIFICANT IN THAT THIS IS THE FIRST KNOWN VISIT OF

SYRIAN NAVAL VESSELS TO AN EGYPTIAN PORT SINCE AT LEAST THE OCTOBER 1973 WAR. IT MAY BE INTENDED AS AN EXERCISE IN NAVAL DIPLOMACY, TO SIGNAL MORE TANGIBLY A NEW ERA OF HEIGHTENED DAMASCUS-CAIRO POLITICAL AND MILITARY HARMONY. ARAB RHETORIC NOTWITHSTANDING, HOWEVER, THERE HAS BEEN LITTLE CONCRETE EVIDENCE OF SYRIAN-EGYPTIAN MILITARY COOPERATION. GIVEN PRESIDENT ASSAD'S INTENSE SUSPICION OF THE EGYPTIANS--BORN OUT OF FAILURES IN THE OCTOBER WAR, UNILATERAL EGYPTIAN ACTION IN REACHING THE SINAI II AGREEMENT, AND
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CAIRO'S PREVIOUS OPPOSITION TO DAMASCUS' ACTIVITY IN LEBANON--CLOSE (UNIT-LEVEL) COOPERATION BETWEEN THE TWO PROBABLY WILL NOT OCCUR IN THE FORESEEABLE FUTURE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL SUMMARIES
Control Number: n/a
Copy: SINGLE
Sent Date: 20-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE169501
Document Source: CORE
Document Unique ID: 00
Drafter: AAVACCARO:CA
Enclosure: n/a
Executive Order: X2
Errors: N/A
Expiration:
Film Number: D770259-0715
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770737/aaaabfnq.tel
Line Count: 140
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 21016e66-c288-dd11-92da-001cc4696bcc
Office: ORIGIN INR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1800542
Secure: OPEN
Status: NATIVE
Subject: INTSUM 362 - JULY 20, 1977 MOSCOW, KUWAIT, SANA FOR AMBASSADORS LONDON FOR KINSOLVING
TAGS: PINR, EG, IS
To: SINAI
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/21016e66-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009